



**QUEEN'S
UNIVERSITY
BELFAST**

The European Union: Emerging from Crisis?

Phinnemore, D. (2014). The European Union: Emerging from Crisis? *Political Insight*, 5(1), 22-25.
<https://doi.org/10.1111/2041-9066.12045>

Published in:
Political Insight

Document Version:
Peer reviewed version

Queen's University Belfast - Research Portal:
[Link to publication record in Queen's University Belfast Research Portal](#)

Publisher rights

This is the accepted version of the following article: Phinnemore, D. (2014), The European Union: Emerging from Crisis?. *Political Insight*, 5: 22–25. doi: 10.1111/2041-9066.12045, which has been published in final form at <http://onlinelibrary.wiley.com/doi/10.1111/2041-9066.12045/abstract>.

General rights

Copyright for the publications made accessible via the Queen's University Belfast Research Portal is retained by the author(s) and / or other copyright owners and it is a condition of accessing these publications that users recognise and abide by the legal requirements associated with these rights.

Take down policy

The Research Portal is Queen's institutional repository that provides access to Queen's research output. Every effort has been made to ensure that content in the Research Portal does not infringe any person's rights, or applicable UK laws. If you discover content in the Research Portal that you believe breaches copyright or violates any law, please contact openaccess@qub.ac.uk.

The European Union: Emerging from Crisis?

David Phinnemore

Following five years of, at times, seemingly terminal crisis in the Eurozone, the New Year messages issued by European Union (EU) leaders to welcome in 2014 were among the first to contain hints of optimism that not only had the future of the euro been secured but that there was evidence an economic recovery of sorts was taking place. Leading media commentators rightly warned, however, against false optimism, highlighting not only the fragile nature of the recovery where there were signs of improved economic performance, but also the sense that the momentum behind reforms designed to address the institutional and structural deficiencies of the Eurozone were either ill-conceived or in danger of faltering.

The existential threat to the euro may have significantly receded, and the pervading sense of crisis may have abated, but the Eurozone remains some distance from extricating itself fully, let alone irrevocably, from a crisis that has not only had an often dramatic impact on the economic and social well-being of most of its citizens, but has also seen questions raised about whether the EU itself would actually survive.

The four-plus years of Eurozone crisis have certainly demonstrated the EU's resilience and the ability of its member states and institutions, however slowly and falteringly, to craft responses, albeit ones which are often inelegant in their design and sub-optimal in their content. Furthermore, rather than leading to disintegration, the Eurozone crisis, as has so often been the case in the past with crises, has actually led to deeper integration, at least for those involved in the Eurozone. Once more, however, the process has been elite-driven, generally lacking popular endorsement, and in many respects openly challenged not least via street protest, court challenges and electoral defeat for incumbent governments. The crisis, has therefore cast an ever harsher light on existing challenges – or crises – facing the EU, most notably those of popular support and legitimacy.

In addition, the responses the EU has adopted to resolve the crisis have exacerbated tensions within the EU, notably between those inside the Eurozone and those outside, especially the United Kingdom. It has also altered power relationships within the EU, whether between the member states with Germany predominant; between the institutions, with the European Central Bank (ECB) to the fore; or between the institutions and member states, with the bailout states – Greece, Ireland,

Portugal, Cyprus – being subjected to particularly intrusive scrutiny of their finances by Troika officials from the European Commission, the ECB and the International Monetary Fund.

The intensity of the crisis and the huge amount of political and administrative resource it has absorbed has also clearly been felt in other policy areas as priorities have shifted. And of course, the economic and political fallout from the crisis has not been limited to states within the EU; those in the Western Balkans, for example, eager to make progress towards entering the EU have seen their cause suffer as recession has hit key markets and investors and the EU's understandable preoccupation with the Eurozone crisis has acted as a further block on enlargement moving back up the list of EU policy priorities.

Successive stages of the crisis have dominated the EU's agenda since 2009. Looking back, rarely does it appear that a European Council or gathering of finance ministers has not been dedicated to trying to address, sometime frantically, the latest stage of a seemingly unending crisis. During the process, bailouts have been agreed, and various measures adopted, sometimes in vain, in an attempt to shore up the precarious fiscal positions of various governments and stabilize volatile and seemingly fickle markets. It has been a dramatic period, without precedent in the history of the EU.

Yet, despite the often hyperbolic insistence of many hard-line Eurosceptics, their views often echoed by a crisis-crazed tabloid media, the EU has neither imploded nor ceased to function. Instead, and reflecting the fact that it is a firmly established and increasingly important feature of the European political system of which national political systems are part, it has continued to function: legislation continues to be proposed and adopted; innovations from Lisbon, such as the European Council President and the revamped High Representative, have become embedded; budgetary politics remain as contentious as ever, but successive annual budgets and a new Multi-Annual Financial Framework for 2014-2020 have been agreed.

Moreover, the EU has also demonstrated an impressive ability to respond to developments in the crisis and forge at least tentative solutions to the problems that have been thrown up. Among the developments that were inconceivable prior to the crisis was the agreement to establish first a temporary European Financial Stability Facility (EFSF) and then a permanent European Stability Mechanism (ESM), a fund with a capacity to lend €500bn to Eurozone states in financial difficulty. There is also the ECB'S Outright Monetary Transactions programme for buying government bonds;

and the statement of its President, Mario Draghi, that the ECB would do 'whatever it takes' to protect the Eurozone from collapse.

However, few agreed measures have been either unproblematic or uncontroversial, and some decisions, e.g. to eschew the option of Eurobonds and thereby mutualize the debts of Eurozone members, may yet return to haunt the Eurozone and the EU more generally. Also, the longer term economic and social impacts of the austerity resulting from the insistence on reducing national fiscal deficits and debts remain to be seen. Nevertheless, although the jury remains out on the EU's response to the crisis, there is scant prospect of the EU not being around to receive its verdict.

Indeed, in pursuing deeper integration in the Eurozone the response to the crisis has seen not only temporary measures such as the EFSF being replaced by permanent structures (e.g. ESM), it has also encouraged, if not necessitated, the development of plans for deeper integration, notably in terms of banking union, fiscal union and economic union. However, the sense of urgency to progress plans has clearly waned since the dizzy heights of the crisis in 2011-12.

Consequently, the Fiscal Compact Treaty (2012) and its strictures, as well as those of the 2011 'six-pack' of legislative measures on budgetary discipline and surveillance, have not been followed up with plans for treaty reform to strengthen institutional arrangements on economic governance and provide for an enhanced Eurozone budget and fiscal transfers. Indeed, German opposition to a 'transfer union' appears to have put paid to the latter idea entirely. Progress towards a genuine banking union with a single resolution authority having the power and resources to wind up failing banks has also faltered with many commentators querying the effectiveness of the compromise measures now adopted. As the sense of urgency to resolve the crisis has faded, so too have the prospects of securing agreement on the bolder, more substantial forms of closer integration proposed and, for some, seen as necessary to secure the longer-term survival and health of the Eurozone.

In stepping back from the headlong rush into treaty reform and even deeper Eurozone integration which seemed on the cards in 2012, EU leaders are at least creating an opportunity to consider voters' views on where the EU is heading, even if they may not avail of it. A key criticism of the decisions that have been taken to address the Eurozone crisis in recent years is that they have been taken, as Crum argues, at a potentially significant cost to the future of democracy. Seeking to resolve the Eurozone crisis has only reinforced the EU's democratic deficit and exacerbated the legitimacy

crisis from which it clearly suffers. And what legitimacy the EU has in many people's eyes continues to be undermined further by the economic and social hardship caused by or at least attributed to the austerity measures taken by the governments in order to comply with new EU-inspired economic governance measures or, in more desperate and dramatic cases, secure EU bailout funds.

Many established 'mainstream' parties in EU member states, particularly those in government, have already seen their share of the vote in national elections fall in the face of popular opposition to austerity, bail outs and the prospect of even closer integration. Eurosceptic parties, some established, some new, have meanwhile gained, increasing the number and volume of voices challenging the established orthodox view that European integration and the EU positively benefit states and their citizens.

The tensions and uncertainties this is are a major challenges for the EU and its member states and are likely to be exacerbated following the 2014 European Parliament elections in which Eurosceptic parties of various hues, including from the far right, are expected to make significant gains. Whereas resolving the Eurozone crisis may in fact require closer integration, EU leaders and decision-makers cannot get away from the fact that such a course of action rarely commands much popular support.

Tensions are also clearly in evidence within the EU between those member states which use the euro and those – or at least some of those – who do not. Fears abound that as the Eurozone states commit to greater economic policy cooperation and utilize formalized and more informal institutions reserved for them, other member states will become increasingly marginalized. Eurozone states, by dint of their number, will effectively be able decide among themselves measures governing core areas of EU policy. Fears of such caucusing, for example on the development of the internal market and especially measures governing financial services, have already led to demands that a system of double-majority of Eurozone and non-Eurozone members be introduced to safeguard the interests of the latter.

Leading the charge among the non-members of the Eurozone has been the United Kingdom which despite its refusal to adopt the euro has not been immune – much to its chagrin – from the effects of the crisis. It has, however, found itself marginalized and excluded – in part due to its own actions – from decisions on the future of the Eurozone. The marginalization argument can, however, be overstated, for the United Kingdom remains an active EU member state contributing to a range of debates and seeking to ensure its preferences are reflected in policy measures and legislation.

Equally, the establishment of ESM, the adoption of the Fiscal Compact Treaty, moves towards banking union, talk of fiscal union and increased efforts to promote economic governance at the EU level have helped fuel the domestic UK debate over whether the EU is in fact a union of which the United Kingdom wishes to remain part. The UK Independence Party (UKIP), gaining popular support, simply fuels the argument. Consequently, not only is there increasing popular and party political opposition to UK involvement in further EU integration, the Conservative Party is promising to revise the terms of membership and hold a referendum on staying in the EU if it is re-elected in 2015. Following the attempt of the UK Prime Minister, David Cameron, to veto an EU fiscal compact in the midst of the Eurozone crisis, the latest grandstanding, coupled with additional moves to commit the next UK parliament to a referendum, simply adds a new and unwelcome – and to many unnecessary and distracting – ‘crisis’ to the EU’s agenda.

Whereas the UK position in the EU is unassured, Germany’s is very clear. Whether the country likes it or not, it is now very much the dominant economic and political force within the EU and the one to which all eyes turn for leadership. Any sense that the historical Franco-German tandem remains the driving force behind the development of the EU has been almost totally eroded as a consequence of the Eurozone crisis. It has been Germany – and in particular its Chancellor, Angela Merkel – who has called the shots, albeit slowly and with considerable caution. And there seems little prospect of the situation changing.

For those outside the EU, the past five years has been a frustrating time. The piecemeal, faltering progress towards addressing the challenges of the Eurozone crisis has for many been painful to watch. Yet, it has not prevented new trade deals being agreed, progress being made in developing a common foreign and security policy, or enlargement. Croatia has joined the EU, and negotiations have been opened with Montenegro and Serbia, but Iceland has effectively abandoned its half-hearted membership bid now that it has survived the financial crisis of 2008-11, and Turkey’s accession negotiations remain stalled. The Eurozone crisis has distracted the EU, but it has not brought enlargement to a halt.

There have certainly been moments during the Eurozone crisis when the futures of the euro and the EU have been questioned. And legitimate questions continue to be raised as to whether the Eurozone in its current state will survive; Latvia’s adoption of the euro in January 2014 may have been heralded as a sign of confidence in the currency, but it could not hide the prevailing sense that

the Eurozone was still not definitively out of crisis. However, despite its shortcomings, few questions were being raised about the survival of the EU. It has its challenges: including improving its popular legitimacy and support. For many observers and critics they are crises; and long-term ones. And with EP elections in 2014, they will be highlighted, and could indeed worsen. Once again the EU faces a challenging year.

Crum, B. 'Saving the Euro at the Cost of Democracy?', *Journal of Common Market Studies*, 51 (4) 2013, 614-630

Box

The Fiscal Compact Treaty – formally *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* – is an intergovernmental treaty signed in March 2012 by all of the EU's then 27 member states except the Czech Republic and the United Kingdom. It commits the signatories to a balanced budget of less than 3% of gross domestic product (GDP) and a structural deficit of less than 1% of GDP provided the national debt is less than 60% of GDP. Participating states are obliged to take corrective measures if the criteria are being breached. Where the national debt is greater than 60% of GDP, measures are to be taken to reduce it by 1/20th each year. According to the treaty, these and other commitments contained in its provisions are to be given 'binding force and permanent character' preferably through constitutional amendment. The Fiscal Compact Treaty entered into force on 1 January 2013. As of January 2014, 24 signatories had ratified the treaty including all Eurozone member states except Belgium.

Originally it was planned that the commitments contained in the Fiscal Compact Treaty would be included in the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU) – the two treaties on which the EU is based. UK opposition prevented this happening. However, the Fiscal Compact Treaty does envisage the commitments being written into the TEU/TFEU in 2018, although the UK – or indeed any other member state – could block this. During the Eurozone crisis, there has also been much discussion of amending the TEU/TFEU to facilitate moves to banking union in particular. So far, major treaty change has been avoided. Instead, existing legal bases contained in the TFEU have been used, e.g. for the single resolution mechanism agreed in December 2013. In the case of the European Stability Mechanism, however, this was established following the conclusion in 2011 and 2012 of two intergovernmental treaties between the Eurozone

states. In the meantime the TFEU was amended to permit the Eurozone states to establish such a mechanism.

Quotes

Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough.

Mario Draghi, President of the European Central Bank, 26 July 2012

“The euro is our common destiny, and Europe is our common future”

Angela Merkel, German Chancellor, December 2010

“eurozone integration could lead to caucusing that would be against our interests”

David Cameron, UK Prime Minister, July 2012